

**EMPLOYEES RETIREMENT SYSTEM  
CITY OF ST. LOUIS**

**DEFERRED RETIREMENT OPTION PLAN  
POLICY AND PROCEDURE**

**A. PURPOSE**

The purpose of this Policy and Procedure is to provide a coordinated and fully documented process for applicants to enter and obtain distributions from the Deferred Retirement Option Plan (“DROP”) of the Employees Retirement System of the City of St. Louis (“System”). In addition, this Policy and Procedure is intended to provide those associated with the process a detailed outline of the steps, time frames, and rules regarding the DROP and the processing of applications for participation in the DROP and distributions from the DROP.

**B. PROCEDURE**

1. A Member who desires information concerning the DROP but is not yet prepared to participate may:
  - (a) request a non-binding verbal estimate of the amount of his/her DROP benefit and/or
  - (b) schedule an appointment with the System’s administrative office to discuss the DROP, during which a non-binding estimate of the amount of his/her DROP benefit can be made.
2. The DROP participation date must be the first day of the month.
3. A Member of the System who desires to participate in the DROP must meet with the System’s administrative office to file a DROP Election Form at least thirty (30) days but no more than ninety (90) days in advance of the desired DROP participation date.
4. The Member must bring to the meeting proof of his/her date of birth (must be original or certified copy of Birth Certificate, Passport, Baptismal Certificate, Military Discharge or verification from the Social Security Administration). The original or certified document will be returned to the Member. If the Member cannot provide any of the documents listed above, he/she may contact the System’s administrative office for other acceptable means of proof of date of birth.

5. During the meeting, the System's administrative staff will:
  - (a) inform the Member of the contents of this Policy and Procedure, the Election Form for participation in the DROP, the Distribution Election Form and the Beneficiary Election Form;
  - (b) respond to any questions the Member may have concerning the contents of this Policy and Procedure.
6. A Member who elects to participate in the DROP must sign the Election Form and verify that he/she understands the terms and conditions of the DROP, as expressed in the Policy and Procedure.
7. When filing the Election Form to participate in the DROP, the Member will have the opportunity to designate a beneficiary to receive his/her DROP account in the event the Member dies before receiving the account. The Member may designate a contingent beneficiary on the Beneficiary form, who will receive the DROP account in the event the first selected beneficiary dies before the Member. The Member can change his beneficiary for the DROP account at any time by filing a new Beneficiary Election Form.
8. A designated beneficiary will receive the DROP account only if the Member dies before receiving his/her entire DROP account balance. In the event the Member fails to designate a beneficiary, or if no beneficiary survives him/her, the Member's estate will receive the DROP account balance remaining unpaid at the Member's death.
9. Notice of the Member's election to participate in the DROP will be placed on the agenda for a Board meeting for approval.
10. Within ten (10) days after Board approval of the Member's participation in the DROP, the System's administrative office will:
  - (a) notify the Member of the Board's approval of his/her DROP participation including the exact calculation of the monthly amount to be credited to the Member's DROP account during the DROP period;
  - (b) arrange for the Member's DROP account to be established;
  - (c) freeze the Member's creditable service as of his/her DROP entry date.
11. The System's administrative office will annually provide each DROP participant with a statement of their DROP account balance. The System's administrative office will also respond to other balance inquiries, but only if such inquiries are in writing.
12. Participation in the DROP shall be in whole calendar months.
13. A Member may stop his/her participation in the DROP by notifying the Board of Trustees in writing at least thirty (30) days in advance of the month he/she wishes to terminate participation.

14. Upon receipt of notice of a Member's desire to end participation in the DROP, the Board of Trustees shall return the Member to non-DROP participation status. Service rendered after a Member returns to non-DROP status shall be counted as creditable service.
15. An active DROP participant, or a former DROP participant who has returned to Non-Drop participation status, who wishes to retire must make written application to the Board of Trustees at least thirty (30) days but no more than ninety (90) days in advance of his/her desired retirement date. Upon receipt of such written application, the System's administrative staff will:
  - (a) Provide the Member with the necessary forms to complete relative to his/her retirement along with a reasonable deadline for submitting such forms;
  - (b) Provide the Member with a Special Tax Notice Regarding Plan Payments Under Governmental 401(a) Plans (at least 30 days and not more than 90 days prior to distribution of benefits) and a DROP Distribution Election Form along with a reasonable deadline for submitting such form;
  - (c) Respond to any questions the Member may have.
16. When all the appropriate forms are fully completed, the System's administrative office will place notice of the Member's application for retirement along with notice of his/her DROP Distribution Election on the Board agenda for approval.

C. **GENERAL RULES**

1. In order to be eligible to participate in DROP, a Member must be eligible for early retirement, normal retirement or Rule of 85 retirement.
2. Members may participate in the DROP for a maximum of five (5) years (60 monthly payments).
3. No Member may elect to participate in the DROP more than once.
4. A Member's election to participate in the DROP is irrevocable once approved by the Board of Trustees. A member may terminate his/her participation as provided above; however, a member cannot void his/her participation in the DROP in exchange for creditable service.

5. A Member electing to participate in the DROP shall continue in active employment and shall not receive any direct retirement allowance payments during the time of participation. Service earned during the period of participation in the DROP shall not be creditable service and shall not be counted in determination of any retirement allowance. As a consequence the following will apply:

- (a) During the period of participation in the DROP, the amount that a Member would have received as a service retirement allowance shall be deposited on the last business day of each month in the Member's DROP account which shall be established in his/her name by the Board of Trustees.
- (b) A Member's creditable service will be frozen upon entry into the DROP.
- (c) A Member's DROP account shall not be adjusted for any cost of living increases during the Member's participation in the DROP program.
- (d) A Member's DROP account shall earn interest as follows:
  - DROP accounts established prior to February 1, 2003 shall earn interest at the actuarial valuation rate of return as determined by the Board of Trustees.
  - DROP accounts established on or after February 1, 2003 shall earn interest at a rate equal to the yield on the ten-year Treasury Bond as of the date of the Retirement System's most recent plan year end.

The interest shall be credited annually to the Member's account on the first day of each fiscal year beginning with the start of the second fiscal year following participation based on the account balance at the beginning of the previous fiscal year. The System's fiscal year is October 1 through September 30.

If a total withdrawal occurs during a System fiscal year, interest will be determined pro rata for the final partial fiscal year to date of retirement or death, whichever occurs first, based on the beginning balance for the fiscal year, except that no interest shall be payable if such withdrawal occurs prior to the start of the second fiscal year following participation.

- (e) No Member shall make any withdrawal from his/her DROP account until after he/she retires.

6. When a DROP participant returns to non-DROP participation status:

- (a) the monthly DROP allowance stops being credited to the DROP account;
- (b) he/she resumes earning creditable service.

7. If after return to non-DROP participation status, a Member retires, the Member's retirement allowance shall be computed on the combination of the Member's pre-DROP

creditable service plus any additional service earned by the Member after returning to non-DROP participation status.

8. The Member must complete and file a DROP Distribution Election Form prior to his/her effective date of retirement. Notice of the Member's application for retirement and DROP Distribution Election will be placed on the agenda for Board approval.
9. Upon retirement the Member shall receive the monthly retirement benefits provided by ordinance plus the amount which has accumulated in his/her DROP account along with accrued interest.
10. If a Member dies prior to termination of employment or prior to receiving payment of all amounts in the DROP account, the funds in his/her DROP account plus pro-rated interest if applicable as of the date of death shall be payable to the Member's designated DROP beneficiary. If the Member failed to designate a beneficiary, or if no beneficiary survives him/her, such funds shall be payable to the Member's estate. Payment may be in the form of a lump sum distribution or an eligible rollover distribution.
11. The Board of Trustees has authority to revise the DROP Policy and Procedure as needed.

**D. DISTRIBUTIONS FROM DROP**

1. At least thirty (30) days but not more than ninety (90) days prior to distribution of any portion of the DROP benefit, the System will provide the Member or the Member's designated beneficiary with the Special Tax Notice Regarding Plan Payments Under Governmental 401(a) Plans.
2. No DROP benefit will be paid or otherwise distributed to a Member until after the effective date of his/her retirement as approved by the Board of Trustees.
3. No DROP benefit will be paid to a Member's designated DROP beneficiary following the Member's death until such payment is approved by the Board of Trustees. The Board of Trustees will not approve payment until receipt of sufficient documentation of the Member's death. (For example, a death certificate would be deemed "sufficient documentation" of a Member's death.)
4. Distributions from DROP accounts will be included in the recipient's taxable income for the year received and will be subject to all applicable tax withholding rules. Please note that certain DROP distributions made prior to age 55 may be subject to an early distribution tax. To the extent permissible under federal tax laws, payment of a DROP account shall be made in the following forms:
  - (a) A lump sum distribution of the balance of the DROP account.
  - (b) A lump sum distribution of the balance of the DROP account with all or part of the lump sum distribution directly rolled over to an Individual Retirement Account (IRA), Roth IRA, or to another employer's tax-qualified retirement plan that accepts rollovers, subject to Internal Revenue Code requirements. Please

note the minimum required distribution for a member who is over age 70-1/2 is not eligible for rollover distribution and will be disbursed to the member subject to any federal and/or state withholding requirements.

- (c) Substantially equal monthly installments for ten (10) years. The member will receive 120 monthly installments with interest accrued during the disbursement period payable as follows:
- For those Members who retired and elected the 10-year monthly installment DROP distribution prior to October 1, 2008, the interest accrued during the entire disbursement period (post retirement interest) will be issued as a separate check along with the last installment. Any post retirement interest that is in excess of the minimum required distribution will be eligible for rollover. The minimum required distribution, if applicable, will be paid to the Member, subject to any federal and/or state withholding requirements.
  - Due to Treasury Regulation 1.401(a)(9)-6, all Members retiring or separating from service on or after October 1, 2008 who elect the 10-year monthly installment DROP distribution shall receive the interest accrued during each plan year of the disbursement period as a separate check to be issued promptly following the end of that plan year. These yearly interest payments are not eligible for a rollover distribution.
- (d) Notwithstanding anything to the contrary contained herein, if a Member is over the age of 81 when the Member separates from service and said Member elects the 10-year monthly installment DROP payout, said member's DROP benefit shall be paid over said Member's life expectancy as set out from the table pursuant to Treasury Regulation 1.401(a)(9)-9.
5. In the event a member's DROP account is less than \$5,000 at the time it is first payable, the DROP account shall be paid in a single lump sum.
  6. A Member's DROP Distribution Election becomes irrevocable upon approval by the Board of Trustees.
  7. Unless otherwise required by law, payment of a Member's DROP account shall begin within three (3) months following the effective date of his/her retirement.
  8. Payment of a Member's DROP account to his/her designated beneficiary shall be made no sooner than the month following the Member's death.
  9. In the event a Member or designated beneficiary fails to apply or elect to receive a required minimum distribution by the required beginning date, the System shall notify the Member of the required beginning date and the minimum distribution requirements, and if necessary utilize a federal forwarding program.

In the event a Member or designated beneficiary is eligible to receive an eligible rollover distribution of \$1,000 or more (that portion of a DROP or DROP interest distribution that is not a required minimum distribution) and fails to make an election within 90 days following receipt of the Special Tax Notice for Payments Under a Governmental 401(a) Plan, the System shall automatically rollover the eligible distribution to its Mandatory Default IRA Provider, currently RolloverSystems, Inc. located at 4135 South Stream Boulevard, Suite 500, Charlotte, NC 28217 in the Reserve FDIC Insured Deposit IRA. That portion of a Member's DROP benefit that is a required minimum distribution will be retained by the System until the Member makes application. Please note, the failure to timely take a minimum required distribution by the required beginning date as set out in Section 401(a)(9) of the Internal Revenue Code and the regulations promulgated thereunder may cause the required minimum distribution to be subject to additional tax liabilities.

10. All distributions from the DROP will be made on the last business day of the month.

Approved July 27, 2009